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Action/Information Item

California Student Aid Commission

Update and Consideration of Authority to Proceed with Hiring a Chief Internal Auditor

The Bureau of State Audits (BSA) recommended in its April 2006 report that the Commission replace its current chief of internal audits with an individual who is free from the appearance of organizational and personal impairments to independence. In June 22-23, 2006, the Commission approved the separation of the internal audit function between the Commission and EDFUND and the hiring of a new internal auditor for the Commission.

Commission staff received approval from the Department of Personnel Administration (DPA) to use the Senior Management Auditor classification for the new Chief Audit Executive position. However, at the February 22-23, 2007 Commission meeting, Commissioner Johnston raised several concerns regarding the hiring of the Chief Audit Executive.

On April 5, 2007, the Executive Director sent the enclosed letter to the Commissioners addressing each of the concerns raised by Commissioner Johnston. As noted in the letter, Commission staff recommends that the Commission authorize the hiring of the Chief Audit Executive with responsibility for all of the Commission's programs, including the loan program, as approved by DPA.

In addition, staff is including copies of the Internal Auditor's Duty Statement, December 6, 2006 letter to the Department of Personnel Administration seeking approval to re-establishment and fill the position, CSAC Job Opportunity Bulletin and California State Personnel Board Job Specifications.

Recommended Action: Authorize staff to proceed with the hiring of a Chief Audit Executive.

Responsible Staff: Janet McDuffie
Chief, Management Services and Acting Chief, Federal Policy & Programs

CALIFORNIA STUDENT AID COMMISSION

Office of the Executive Director

CALIFORNIA STUDENT AID COMMISSION 1955—2005 50 YEARS SERVING STUDENTS

M E M O R A N D U M

DATE: April 5, 2007

TO: Commissioners

FROM: Diana Fuentes-Michel
Executive Director

Diana Fuentes-Michel

SUBJECT: Chief Internal Auditor Position

As you will recall, the Department of Personnel Administration has approved the California Student Aid Commission's (CSAC) request to reinstate the Chief Internal Auditor position and has given authority to hire at the Senior Management Auditor classification.

The Commission directed me at its February 22-23, 2007, meeting to postpone moving forward with the hiring of the CSAC Chief Internal Auditor based on concerns expressed by Commissioner Dean Johnston, Chair of the CSAC Audit Committee. Commissioner Johnston has asserted that EDFUND's Vice President of Audit Services should continue to oversee the internal audits dealing with the State's participation in the federal student loan program. Commissioner Johnston expanded on his concerns in a comprehensive e-mail message to Janet McDuffie dated March 5, 2007. I have attached a copy of that e-mail message, along with the pdf attachments to that message. The pdf attachments identify certain internal auditing standards from "The International Standards for the Professional Practices of Internal Auditing" (Internal Auditing Standards), as well as Practice Advisories involving those standards, that Commissioner Johnston believed would raise issues with the job duties of the Chief Internal Auditor.

Concern Regarding Roles and Responsibilities of Chief Internal Auditor

Commissioner Johnston's first issue was that the Chief Internal Auditor's objectivity would be compromised if he or she undertook an audit of EDFUND based upon the recommendation of CSAC's Federal Policy and Programs Division (FPPD), because he or she would also be responsible for auditing FPPD. The concern is that by responding to an FPPD request to audit EDFUND, the Chief Internal Auditor would be deemed to have operational responsibility for FPPD, and thus, to the extent his or her job duties included auditing FPPD, the Chief Internal Auditor could be deemed to be violating the Internal Auditing Standards by auditing a program for which he or she was operationally responsible.

Institute of Internal Auditors Concludes No Conflict in CSAC's Chief Internal Auditor Defined Responsibilities

CSAC staff has consulted with the Institute of Internal Auditors on this issue. The Institute of Internal Auditors wrote the Internal Auditing Standards and the Practice Advisories. I have attached a pdf copy of a March 30, 2007, memorandum to me from Janet McDuffie, Acting Chief of FPPD, describing the inquiry to, and response from, the Institute of Internal Auditors. After describing the situation in reference to the State, its Auxiliary, and Division "X", CSAC staff asked: "While Division X is performing its routine responsibilities for monitoring the contract, staff may come across an issue/area/item that needs further review/investigation. Division X may make a recommendation to the State's Executive Management and the State's Internal Audit shop to perform an audit. If the State's Internal Audit Shop performs an audit of the Auxiliary, would this be perceived as a conflict because the State's Internal Audit Shop is also responsible for auditing Division X? Would this violate any of the standards?"

Essentially, the Institute of Internal Auditors concluded that, provided the State's Internal Audit Shop has not had any direct responsibility for managing the operation of the Auxiliary or Division X, or the audit team assigned to the audit has not provided consulting services to the Auxiliary or Division X, there is no conflict by auditing the operations. Please see the attached March 30, 2007, memorandum for the complete question and answer.

Concerns About Addressing Cal Grant Audit Responsibilities

Commissioner Johnston's second issue was that the Commission has neglected the Cal Grant program and operations, and that the internal audit focus should be placed on those areas. Commissioner Johnston's concern about the lack of review of the Cal Grant program and operations is well-founded. As some of the veteran Commissioners may recall, at the April 20-21, 2006, meeting, CSAC staff recommended that the Commission authorize CSAC staff to obtain a consulting contract to undertake a comprehensive review of Cal Grant policies and procedures to ensure compliance with all statutory requirements. The impetus for the recommendation was staff's discovery that the Cal Grant procedures implemented in 2000 had not incorporated a statutory requirement that students were required to have been residents of California at the time of high school graduation to be eligible for Cal Grant Transfer Entitlement awards.

At the time, the Commission limited approval to a review of the Transfer Entitlement process, and chose to rely on the Commission's Internal Audit Plan to accomplish the review of the Cal Grant program. To date, internal audits of the disbursement and reconciliation process and the grade point average collection process have been completed. Since the Commission voted to hire its own Chief Internal Auditor (in response to the recommendation in the Bureau of State Audits report), the Commission has contracted with the Department of Finance to conduct an audit on Cal Grant eligibility of new students. This audit is anticipated to be completed by June 30, 2007. The Commission received an update of this audit at its February 22-23, 2007 meeting.

However, staff disagrees that a current need for greater focus on Cal Grant operations requires or justifies the permanent removal of audit responsibilities relating to the Federal Family Education Loan (FFEL) Program from the job responsibilities of the CSAC Chief Internal Auditor.

CSAC's Responsibility to Oversee Loan Program Includes Audit Function

Staff strongly believes that the final audit responsibilities of a State program belong with a State auditor. While the FFEL Program may have been created by federal law, the Commission's participation in the FFEL Program is a matter of State law. State law expressly authorizes California to participate in the FFEL Program. (Education Code, §69760.) State law establishes the Commission as a state student loan guarantee agency under the FFEL Program and establishes the Commission as the designated state agency for receiving any federal funds for administrative costs and payments of insurance obligations. (Education Code, §69761.5(a).) State law establishes that the contents of the Student Loan Operating Fund are State funds. (Education Code, §69766(c).) Further, the Commission was able to create EDFUND only because State law authorizes the Commission to create an auxiliary to provide operational and administrative services for the Commission's participation in the FFEL Program. (Education Code, §69522(a)(1).)

The Commission would have no authority to participate in the FFEL Program, through EDFUND by any other method, unless State law authorized that participation. Thus, the Commission's participation in the FFEL Program is a State program, subject to the normal accountability and obligations of State programs. The ultimate responsibility for all aspects of the Commission's participation in the FFEL Program, therefore, is a State responsibility. Audit responsibilities relating to the FFEL Program, including audits of the auxiliary organization, properly belong with a State employee. In this case, CSAC's Chief Internal Auditor is the appropriate State officer for these responsibilities.

Recommend Moving Forward with the Chief Internal Auditor Responsible for All Commission Programs, including FFEL Program

The issue of appropriate oversight and who is responsible for discharging the Commission's oversight responsibility is at the heart of Commissioner Johnston's stated concerns. The Commission can not rely solely upon reporting through an annual audit to fulfill its oversight responsibility. An audit is a financial review of expenditures and does not examine programmatic issues related to EDFUND's oversight.

The recent Bureau of State Audits (BSA) report (2005-120) cited that the independence of certain activities at CSAC and EDFUND were in question because the EDFUND Vice President of Audit Services served in multiple roles as Chief of CSAC Internal Audits. The report stated "the CSAC has the statutory responsibility to oversee the activities of EDFUND." (pg. 66). In addition, the BSA report states that the Commission's Internal Audit Services Charter states that "the internal audit activities include the review of EDFUND." The report noted that the then-Chief Internal Audit "is an employee of EDFUND and receives her salary and bonus payments from EDFUND". BSA questioned the EDFUND's internal auditor's "ability to remain impartial and unbiased when choosing potential audit areas or developing audit findings related to Student Aid's oversight of EDFUND" (pg. 68). The BSA auditors argued that "according to the (auditor professional

standards), internal auditors must avoid even the appearance of partiality." The BSA auditor report found that CSAC did not comply with certain (auditing) standards as "it missed an opportunity to identify these impairments itself."

The Commission staff recommends that the Commission adopt its recommendation to hire the Senior Management Auditor with responsibility for all of the Commission's programs, including the loan program, as approved by the State Department of Personnel Administration. The Commission's Chief Internal Auditor would be lead staff person responsible for contact with external control agencies whose responsibilities include oversight of the loan program (USED, BSA and DOF). The Chief Internal Auditor would staff the Commission's Audit Committee which jointly meets with EDFUND's Audit Committee. The EDFUND Board of Directors would maintain its own internal audit function, however would not hold ultimate audit authority over the Commission's participation in the federal student loan program.

Essentially, CSAC is the guarantee agency ultimately responsible for the operations of the FFEL Program. EDFUND is not a State entity, it is an auxiliary to the State. Members of EDFUND's management team have a personal stake in everything EDFUND does. The Commission as a volunteer part-time board cannot adequately oversee operations of the loan program without a strong and experienced executive director and staff who are legally responsible and pledge their loyalty to the State of California and its citizens. All CSAC records, including those of EDFUND, must be accessible and in control of the Commission.

And finally, should the Commission direct staff to remove FFEL Program audit responsibilities from the job description, such an action will require additional review and approval from the Department of Personnel Administration. I recommend that the Commission authorize staff to proceed with the hiring of the Chief Internal Auditor with no changes in the job description.

Attachments

From: "Dean Johnston" <DeanJ@sbbcollege.edu>
To: "McDuffie Janet" <jmcduffi@csac.ca.gov>
Date: 3/5/2007 9:02 PM
Subject: RE: Chief Audit Executive Position
Attachments: Independence Objectivity Standards.pdf; Practice_Advisory_1110-1.pdf; Practice_Advisory_1110-2.pdf; Practice_Advisory_113011 A1-1.pdf; Practice_Advisory_113011 A1-2.pdf

CC: <galligani@arches-cal.org>, <roryjdiamond@yahoo.com>, <louisemcclain@cox...

Janet,

I have several concerns against the Chief Audit Executive position conducting audits of EdFund. One of my primary concerns is the Department of Personnel Administration denying the Commission a position that requires a professional certification for someone responsible for auditing a nearly billion dollar program. I discussed this concern with Diana after the Commission meeting and it was my understanding that she has made a follow up request to DPA for a higher level position. If my understanding is not correct, we should make another attempt.

The Chief Audit Executive is expected to report functionally to the Audit Committee and administratively to the Executive Director. The Audit Committee, therefore, is responsible for reviewing and approving the internal auditor's work. The internal auditor should have an impartial, un-biased attitude and avoid conflict of interest situations, as they would prejudice his or her ability to perform the duties objectively. Objectivity can be presumed to be impaired when internal auditors perform an assurance review of any activity for which they had any authority or responsibility. The justification presented to DPA indicated that the auditor would be responsible for conducting audits on behalf of FPPD. At the same time, the auditor will be assessing FPPD's activities which could be perceived as a conflict. If FPPD, through its oversight responsibilities determines that an activity being conducted by EdFund requires an audit, then the Commission should consider hiring external audit services to avoid any conflict.

Attached to this email are five documents provided for your information. One includes the International Standards for the Professional Practice of Internal Auditing specific to independence and objectivity promulgated by the Internal Auditing Standards Board. The use of the word "should" in the Standards represents a mandatory obligation and is defined as such in the glossary to the Standards. The other four documents are Practice Advisories. The Practice Advisories represent best practices strongly recommended and endorsed by the Institute of Internal Auditors as ways to implement the Standards and are not intended to represent all considerations that may be necessary in evaluating the Standards.

The specific wording in the Standards and Practice Advisories that are attached to this email that relate are.....

- The CAE should report functionally to the audit committee. In this context, report functionally means [but is not limited to] approve all decisions regarding the appointment or removal of the CAE.

- The audit committee should have the final authority to review and

approve the annual audit plan and all major changes to the plan.

- At all times, the CAE should have open and direct access to the chair of the audit committee and its members; or the chair of the board or full board if appropriate.

- The CAE should report administratively to the chief executive officer [the Executive Director] of the organization. The administrative reporting line should not have ultimate authority over the scope or reporting of results of the internal audit activity.

- Internal auditors should not assume operating responsibilities.

- At any point that assigned activities involve the assumption of operating authority, audit objectivity would be presumed to be impaired with respect to that activity.

- Internal auditors should have an impartial, unbiased attitude and avoid conflicts of interest.

Beyond the Internal Auditing Standards and Practice Advisories, the Commission's grant program and operational activities are severely neglected from sufficient audit activities placing the Commissioners at great risk in their fiduciary responsibilities. I recommend we focus CSAC resources on the internal auditing functions of the grant programs. We have plenty to accomplish in this arena. We must move forward with hiring not only the Chief Auditing Executive position but also the other additional vacant auditing position. I see no reason to delay this process.

In addition, internal auditing is not oversight. Internal auditing is for the organization's auditor to audit its own organization. Reg Trice's duty statement that was handed out in the commission meeting is not in effect. A new duty statement should be written for the Chief Auditing Executive.

In summary, there is obvious good reason for me, as Chair of Audit, to oppose any and all audits of EdFund by the Commission's internal auditor. Be assured this will be discussed in the Commissions Roles and Responsibilities deliberations.

I apologize for taking one week to respond Janet. I know you have the best interest of the entire organization in mind. We all must continue to work together to ensure the integrity of the programs we administer for our customers.

Dean

From: McDuffie Janet [mailto:jmcduffi@csac.ca.gov]
Sent: Monday, February 26, 2007 9:13 AM
To: Dean Johnston
Cc: Fuentes-Michel Diana; Yamanaka Keith
Subject: Chief Audit Executive Position

You indicated Friday that your only concern regarding the Chief Audit Executive Position was the following reference contained in the classification justification letter to Department of Personnel Administration:

The incumbent will also conduct specific audits on EDFUND as recommended by the Federal Policy and Programs Division as part of that division's oversight function of the loan program and EDFUND.

You agreed to provide the specific Internal Auditing Standard that you used to justify your comment that "these standards would prohibit the internal audit function from performing operational responsibilities of other divisions, which would include performing audits on behalf of FPPD".

It would be helpful to not only have you provide the specific standard, but also a more thorough explanation regarding your opinion on this matter. Thank you.

Independence and Objectivity Standards

1100 - Independence and Objectivity

The internal audit activity should be independent, and internal auditors should be objective in performing their work.

1110 - Organizational Independence

The chief audit executive should report to a level within the organization that allows the internal audit activity to fulfill its responsibilities.

1110.A1 - The internal audit activity should be free from interference in determining the scope of internal auditing, performing work, and communicating results.

1120 - Individual Objectivity

Internal auditors should have an impartial, unbiased attitude and avoid conflicts of interest.

1130 - Impairments to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

1130.A1 - Internal auditors should refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

1130.A2 - Assurance engagements for functions over which the chief audit executive has responsibility should be overseen by a party outside the internal audit activity.

GLOSSARY – definitions:

Standard - A professional pronouncement promulgated by the Internal Auditing Standards Board that delineates the requirements for performing a broad range of internal audit activities, and for evaluating internal audit performance.

Should - The use of the word "should" in the Standards represents a mandatory obligation.

Practice Advisory 1110-1: Organizational Independence

Interpretation of *Standard 1110* from the *International Standards for the Professional Practice of Internal Auditing*

Related Standard
1110 – Organizational Independence
The chief audit executive should report to a level within the organization that allows the internal audit activity to accomplish its responsibilities.

Nature of this Practice Advisory: *Internal auditors should consider the following suggestions when evaluating organizational independence. This guidance is not intended to represent all the considerations that may be necessary during such an evaluation, but simply a recommended set of items that should be addressed.*

1. Internal auditors should have the support of senior management and the board so that they can gain the cooperation of engagement clients and perform their work free from interference.

2. The chief audit executive (CAE) should be responsible to an individual in the organization with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of engagement communications, and appropriate action on engagement recommendations.

3. Ideally, the CAE should report functionally to the board and administratively to the chief executive officer of the organization.

4. The CAE should have direct communication with the board. Regular communication with the board helps assure independence and provides a means for the board and the CAE to keep each other informed on matters of mutual interest.

5. Direct communication occurs when the CAE regularly attends and participates in meetings of the board, which relate to its oversight responsibilities for auditing, financial reporting, organizational governance, and control. The CAE's attendance and participation at these meetings provide an opportunity to be appraised of strategic business and operational developments, and to raise high-level risk, systems, procedures, or control type issues at an early stage. The opportunity is also provided to exchange information concerning the plans and activities of the internal auditing activity. The CAE should meet privately with the board, at least annually.

6. Independence is enhanced when the board concurs in the appointment or removal of the CAE.

Origination date: Jan 5, 2001

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Practice Advisory 1110-2: Chief Audit Executive (CAE) Reporting Lines

Interpretation of *Standard 1110* from the *International Standards for the Professional Practice of Internal Auditing*

Related Standard
1110 – Organizational Independence
The chief audit executive should report to a level within the organization that allows the internal audit activity to accomplish its responsibilities.

Nature of this Practice Advisory: *Internal auditors should consider the following guidance when establishing or evaluating the reporting lines and relationships with organizational officials to whom the CAE reports. This guidance is not intended to represent all the considerations that may be necessary during such an evaluation, but simply a recommended set of items that should be considered.*

1. The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)* require that the chief audit executive (CAE) report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The IIA believes strongly that to achieve necessary independence, the CAE should report functionally to the audit committee or its equivalent. For administrative purposes, in most circumstances, the CAE should report directly to the chief executive officer of the organization. The following descriptions of what The IIA considers "functional reporting" and "administrative reporting" are provided to help focus the discussion in this Practice Advisory.
   - Functional Reporting — The functional reporting line for the internal audit function is the ultimate source of its independence and authority. As such, The IIA recommends that the CAE report functionally to the audit committee, board of directors, or other appropriate governing authority. In this context, report functionally means that the governing authority would:
     - Approve the overall charter of the internal audit function.
     - Approve the internal audit risk assessment and related audit plan.
     - Receive communications from the CAE on the results of the internal audit activities or other matters that the CAE determines are necessary, including private meetings with the CAE without management present.
     - Approve all decisions regarding the appointment or removal of the CAE.
     - Approve the annual compensation and salary adjustment of the CAE.
     - Make appropriate inquiries of management and the CAE to determine whether there are scope or budgetary limitations that impede the ability of the internal audit function to execute its responsibilities.

- Administrative Reporting — Administrative reporting is the reporting relationship within the organization's management structure that facilitates the day-to-day operations of the internal audit function. Administrative reporting typically includes:
  - Budgeting and management accounting.
  - Human resource administration, including personnel evaluations and compensation.
  - Internal communications and information flows.
  - Administration of the organization's internal policies and procedures.

2. This advisory focuses on considerations in establishing or evaluating CAE reporting lines. Appropriate reporting lines are critical to achieve the independence, objectivity, and organizational stature for an internal audit function necessary to effectively fulfill its obligations. CAE reporting lines are also critical to ensuring the appropriate flow of information and access to key executives and managers that are the foundations of risk assessment and reporting of results of audit activities. Conversely, any reporting relationship that impedes the independence and effective operations of the internal audit function should be viewed by the CAE as a serious scope limitation, which should be brought to the attention of the audit committee or its equivalent.

3. This advisory also recognizes that CAE reporting lines are impacted by the nature of the organization (public or private as well as relative size); common practices of each country; growing complexity of organizations (joint ventures, multinational corporations with subsidiaries); and the trend toward internal audit groups providing value-added services with increased collaboration on priorities and scope with their clients. Accordingly, while The IIA believes that there is an ideal reporting structure with functional reporting to the audit committee and administrative reporting to the CEO, other relationships can be effective if there are clear distinctions between the functional and administrative reporting lines and appropriate activities are in each line to ensure that the independence and scope of activities are maintained. Internal auditors are expected to use professional judgment to determine the extent to which the guidance provided in this advisory should be applied in each given situation.

4. The *Standards* stress the importance of the CAE reporting to an individual with sufficient authority to promote independence and to ensure broad audit coverage. The *Standards* are purposely somewhat generic about reporting relationships, however, because they are designed to be applicable at all organizations regardless of size or any other factors. Factors that make "one size fits all" unattainable include organization size and type of organization (private, governmental, corporate). Accordingly, the CAE should consider the following attributes in evaluating the appropriateness of the administrative reporting line.
   - Does the individual have sufficient authority and stature to ensure the effectiveness of the function?
   - Does the individual have an appropriate control and governance mind-set to assist the CAE in their role?
   - Does the individual have the time and interest to actively support the CAE on audit issues?
   - Does the individual understand the functional reporting relationship and support it?

5. The CAE should also ensure that appropriate independence is maintained if the individual responsible for the administrative reporting line is also responsible for other activities in the organization, which are subject to internal audit. For example, some CAEs report administratively to the chief financial officer, who is also responsible for the organization's

accounting functions. The internal audit function should be free to audit and report on any activity that also reports to its administrative head if it deems that coverage appropriate for its audit plan. Any limitation in scope or reporting of results of these activities should be brought to the attention of the audit committee.

6. Under the recent move to a stricter legislative and regulatory climate regarding financial reporting around the globe, the CAE's reporting lines should be appropriate to enable the internal audit activity to meet any increased needs of the audit committee or other significant stakeholders. Increasingly, the CAE is being asked to take a more significant role in the organization's governance and risk management activities. The reporting lines of the CAE should facilitate the ability of the internal audit activity to meet these expectations.

7. Regardless of which reporting relationship the organization chooses, several key actions can help assure that the reporting lines support and enable the effectiveness and independence of the internal auditing activity.
   - Functional Reporting:
     - The functional reporting line should go directly to the audit committee or its equivalent to ensure the appropriate level of independence and communication.
     - The CAE should meet privately with the audit committee or its equivalent, without management present, to reinforce the independence and nature of this reporting relationship.
     - The audit committee should have the final authority to review and approve the annual audit plan and all major changes to the plan.
     - At all times, the CAE should have open and direct access to the chair of the audit committee and its members; or the chair of the board or full board if appropriate.
     - At least once a year, the audit committee should review the performance of the CAE and approve the annual compensation and salary adjustment.
     - The charter for the internal audit function should clearly articulate both the functional and administrative reporting lines for the function as well as the principle activities directed up each line.
   - Administrative Reporting:
     - The administrative reporting line of the CAE should be to the CEO or another executive with sufficient authority to afford it appropriate support to accomplish its day-to-day activities. This support should include positioning the function and the CAE in the organization's structure in a manner that affords appropriate stature for the function within the organization. Reporting too low in an organization can negatively impact the stature and effectiveness of the internal audit function.
     - The administrative reporting line should not have ultimate authority over the scope or reporting of results of the internal audit activity.
     - The administrative reporting line should facilitate open and direct communications with executive and line management. The CAE should be able to communicate directly with any level of management, including the CEO.
     - The administrative reporting line should enable adequate communications and information flow such that the CAE and the internal audit function have an adequate and timely flow of information concerning the activities, plans, and business initiatives of the organization.
     - Budgetary controls and considerations imposed by the administrative reporting line should not impede the ability of the internal audit function to accomplish its mission.

8. CAEs should also consider their relationships with other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit) and facilitate the reporting of material risk and control issues to the audit committee.

Origination date: Dec 3, 2002

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Practice Advisory 1130.A1-1: Assessing Operations for Which Internal Auditors Were Previously Responsible

Interpretation of *Standard 1130.A1* from the *International Standards for the Professional Practice of Internal Auditing*

Related Standard
1130.A1 – Internal auditors should refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an auditor provides assurance services for an activity for which the auditor had responsibility within the previous year.

Nature of this Practice Advisory: *Internal auditors should consider the following suggestions when faced with a situation where the auditor has been assigned to assess an operation for which they were previously responsible. This guidance is not intended to represent all the considerations that may be necessary during such an evaluation, but simply a recommended set of items that should be addressed.*

1. Internal auditors should not assume operating responsibilities. If senior management directs internal auditors to perform non-audit work, it should be understood that they are not functioning as internal auditors. Moreover, objectivity is presumed to be impaired when internal auditors perform an assurance review of any activity for which they had authority or responsibility within the past year. This impairment should be considered when communicating audit engagement results.
   - If internal auditors are directed to perform non-audit duties that may impair objectivity, such as preparation of bank reconciliations, the chief audit executive should inform senior management and the board that this activity is not an assurance audit activity; and, therefore, audit-related conclusions should not be drawn.
   - In addition, when operating responsibilities are assigned to the internal audit activity, special attention must be given to ensure objectivity when a subsequent assurance engagement in the related operating area is undertaken. Objectivity is presumed to be impaired when internal auditors audit any activity for which they had authority or responsibility within the past year. These facts should be clearly stated when communicating the results of an audit engagement relating to an area where an auditor had operating responsibilities.

2. At any point that assigned activities involve the assumption of operating authority, audit objectivity would be presumed to be impaired with respect to that activity.

3. Persons transferred to or temporarily engaged by the internal audit activity should not be assigned to audit those activities they previously performed until a reasonable period of time

(at least one year) has elapsed. Such assignments are presumed to impair objectivity, and additional consideration should be exercised when supervising the engagement work and communicating engagement results.

4. The internal auditor's objectivity is not adversely affected when the auditor recommends standards of control for systems or reviews procedures before they are implemented. The auditor's objectivity is considered to be impaired if the auditor designs, installs, drafts procedures for, or operates such systems.

5. The occasional performance of non-audit work by the internal auditor, with full disclosure in the reporting process, would not necessarily impair independence. However, it would require careful consideration by management and the internal auditor to avoid adversely affecting the internal auditor's objectivity.

Origination date: Jan 5, 2001

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Practice Advisory 1130.A1-2: Internal Auditing's Responsibility for Other (Non-audit) Functions

Interpretation of *Standard 1130.A1* from the *International Standards for the Professional Practice of Internal Auditing*

Related Standard
1130.A1 – Internal auditors should refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an auditor provides assurance services for an activity for which the auditor had responsibility within the previous year.

Nature of this Practice Advisory: *The following guidance is offered to internal auditors faced with accepting responsibility for non-audit, operational functions or duties. Acceptance of such responsibilities can impair independence and objectivity and, if possible, should be avoided. This guidance is not intended to represent all the considerations that may be necessary in evaluating such responsibilities or assignments.*

1. Some internal auditors have been assigned or accepted non-audit duties due to a variety of business reasons that make sense to management of the organization. Internal auditors are more frequently being asked to perform roles and responsibilities that may impair independence or objectivity. Given the increasing demand on organizations, both public and private, to develop more efficient and effective operations and to do so with fewer resources, some internal audit activities are being directed by their organization's management to assume responsibility for operations that are subject to periodic internal auditing assessments.

2. When the internal audit activity or individual internal auditor is responsible for, or management is considering assigning, an operation that it might audit, the internal auditor's independence and objectivity may be impaired. The internal auditor should consider the following factors in assessing the impact on independence and objectivity:
   - The requirements of The IIA's Code of Ethics and *International Standards for the Professional Practice of Internal Auditing (Standards)*;
   - Expectations of stakeholders that may include the shareholders, board of directors, audit committee, management, legislative bodies, public entities, regulatory bodies, and public interest groups;
   - Allowances and/or restrictions contained in the internal audit activity charter;
   - Disclosures required by the *Standards*; and
   - Subsequent audit coverage of the activities or responsibilities accepted by the internal auditor.

3. Internal auditors should consider the following factors to determine an appropriate course of action when presented with the opportunity of accepting responsibility for a non-audit function:
   A. The IIA's Code of Ethics and *Standards* require the internal audit activity to be independent, and internal auditors to be objective in performing their work.
      - If possible, internal auditors should avoid accepting responsibility for non-audit functions or duties that are subject to periodic internal auditing assessments. If this is not possible, then;
      - Impairment to independence and objectivity are required to be disclosed to appropriate parties, and the nature of the disclosure depends upon the impairment.
      - Objectivity is presumed to be impaired if an auditor provides assurance services for an activity for which the auditor had responsibility within the previous year.
      - If on occasion management directs internal auditors to perform non-audit work, it should be understood that they are not functioning as internal auditors.

   B. Expectations of stakeholders, including regulatory or legal requirements, should be evaluated and assessed in relation to the potential impairment.

   C. If the internal audit activity charter contains specific restrictions or limiting language regarding the assignment of non-audit functions to the internal auditor, then these restrictions should be disclosed and discussed with management. If management insists on such an assignment, the auditor should disclose and discuss this matter with the audit committee or appropriate governing body. If the charter is silent on this matter, the guidance noted in the points below should be considered. All the points noted below are subordinated to the language of the charter.

   D. **Assessment** — The results of the assessment should be discussed with management, the audit committee, and/or other appropriate stakeholders. A determination should be made regarding a number of issues, some of which affect one another:
      - The significance of the operational function to the organization (in terms of revenue, expenses, reputation, and influence) should be evaluated.
      - The length or duration of the assignment and scope of responsibility should be evaluated.
      - Adequacy of separation of duties should be evaluated.
      - The potential impairment to objectivity or independence or the appearance of such impairment should be considered when reporting audit results.

   E. **Audit of the Function and Disclosure** — Given that the internal audit activity has operational responsibilities and that operation is part of the audit plan, there are several avenues for the auditor to consider.
      - The audit may be performed by a contracted, third-party entity, by external auditors, or by the internal audit function. In the first two situations, impairment of objectivity is minimized by the use of auditors outside the organization. In the latter case, objectivity would be impaired.
      - Individual auditors with operational responsibility should not participate in the audit of the operation. If possible, auditors conducting the assessment should be supervised by, and report the results of the assessment to, those whose independence or objectivity is not impaired.
      - Disclosure should be made regarding the operational responsibilities of the auditor for the function, the significance of the operation to the organization (in terms of

revenue, expenses, or other pertinent information), and the relationship of those who audited the function to the auditor.

- Disclosure of the auditor's operational responsibilities should be made in the related audit report and in the auditor's standard communication to the audit committee or other governing body.

Origination date: Feb 1, 2003

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MEMORANDUM

DATE: March 30, 2007

TO: Diana Fuentes-Michel
Executive Director

FROM: Janet McDuffie
Chief, Management Services Division

SUBJECT: Commission's Chief Audit Executive Position

At the February 22, 2007 Commission Meeting and in subsequent emails to CSAC staff, Commissioner Johnston expressed concerns regarding the Chief Audit Executive Position for the Commission.

Commissioner Johnston cited potential impairments to independence for the Commission's Chief Audit Executive position as set forth in the duty statement and Department of Personnel Administration justification letter. Specifically, in the document Commissioner Johnston provided during the Commission meeting, he indicated that "Internal Auditing Standards prohibit the internal audit function from performing operational responsibilities of other divisions, which would include performing audits on behalf of FPPD."

CSAC staff does not agree with Commissioner Johnston on this issue. In an attempt to seek clarification from a reliable source, CSAC staff contacted the Institute of Internal Auditors (IIA) for guidance. Specifically, staff contacted the Global Practices Center Department which is charged with writing and providing guidance for "The International Standards for the Professional Practices of Internal Auditing Standards." These standards are the mandatory guidance for all Institute of Internal Auditor members and Certified Internal Auditors. (Attachment A is a copy of the question and organizational charts provided to IIA along with the answer they provided CSAC staff).

The IIA response indicates that providing CSAC's Internal Audit Division has not had any direct responsibility for managing the operation of EDFUND or FPPD, or the audit team assigned to the audit of EDFUND has not provided consulting services to EDFUND or FPPD there is no conflict by auditing the operations of EDFUND. IIA also stated that it appears from the organization charts that there is enough separation of duties to provide control and that internal audit does report to the audit committee, which gives the internal audit shop a sounding board if they ever believe their independence is impaired due to managements influence. IIA indicated that FPPD is for monitoring and reporting, and CSAC's Internal Audit Division should be auditing FPPD operation processes as part of the normal audit cycle.

Commissioner Johnston also expressed his concern that the Department of Personnel Administration (DPA) was "denying the Commission a position that requires a professional certification for someone responsible for auditing a nearly billion dollar program". Commissioner Johnston requested that CSAC staff to work with DPA to pursue a higher classification that would require professional certification. The State's classification specifications for the Management Auditor Series which includes both the Senior Management Auditor and the next highest classification level of Supervising Management Auditor. These specifications provides the minimum qualifications (related

to education and experience) for these classifications. These specifications do not require any specific certifications (such as CPA, Certified Internal Auditor, (CIA) Certified Government Auditing Professional (CGAP), etc) at either level. Because we cannot require any of these certifications as a hiring condition the Job Opportunity Bulletin advertising the Senior Management Auditor position does indicate various certifications (CPA, CIA, CGAP and CISA) as desirable qualities, as noted at the Commission meeting.

The specifications also provide the guidelines for determine the appropriate allocation of each level based on

> "Variety and complexity of audit assignments, scope and complexity of audit objectives and programs, independence of action and level of decision-making authority, level and variety of professional contacts, degree of administrative and supervisory responsibilities, supervision received, responsibility for program and policy imple*mentation, and impact of the audit program on the plans, procedures, and policies* of the organizations audited."

DPA has indicated that the Senior Management Auditor is the appropriate classification for the Commission's Chief Audit Executive based on the duties and justification and the following allocation guidelines in the classification specifications noted below.

Senior Management Auditor

Either (1) is responsible for planning, organizing, and directing the work of a group of audit teams performing management audits of several organizations or may supervise a large audit team conducting a sensitive complex audit; or (2) directs an internal audit program of a State department requiring a variety of complex technical management audits.

Supervising Management Auditor

Either (1) is responsible for long-range planning, directing, and coordinating the total audit activities of several State agencies or large State organizations; or (2) directs and is responsible for the total management audit activities of an internal audit program in a State department requiring management audits of several large internal governmental programs, or agencies under contract.

Based on the response from IIA and given the importance of the position and the urgency the Commission has placed on hiring the Chief Audit Executive, CSAC staff would like the authorization to move forward with the hiring of the Chief Audit Executive at the Senior Management Auditor level.

ATTACHMENT A

QUESTION:

We have a State Agency that is charged with administering State and Federal programs. The State Agency created an Auxiliary (non-profit corporation) and entered into a contract with the Auxiliary to provide operational and support services for the federal program.

The State Agency is required to conduct regular performance evaluations of the Auxiliary in furtherance of the State Agency's fiscal and fiduciary responsibilities.

The State Agency has a Board of Directors and is responsible for appointing the members of the Auxiliary Board. Both Boards have Audit Committees and both the State Agency and the Auxiliary have Internal Audit shops with CAEs. (Organizational charts are provided for review)

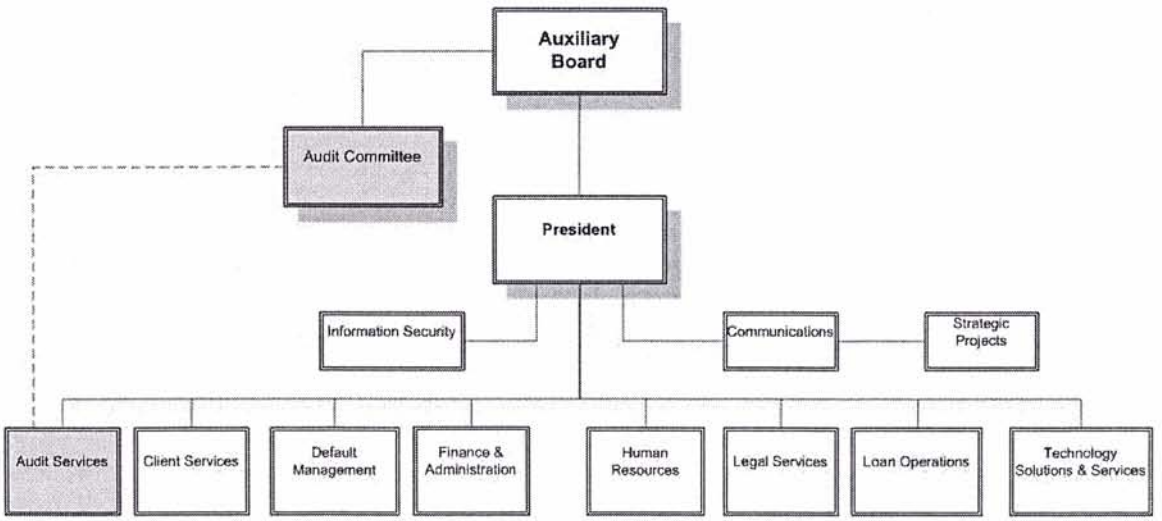
The State Agency has a dedicated Division (Division X) that is responsible for monitoring the contract between the State and the Auxiliary.

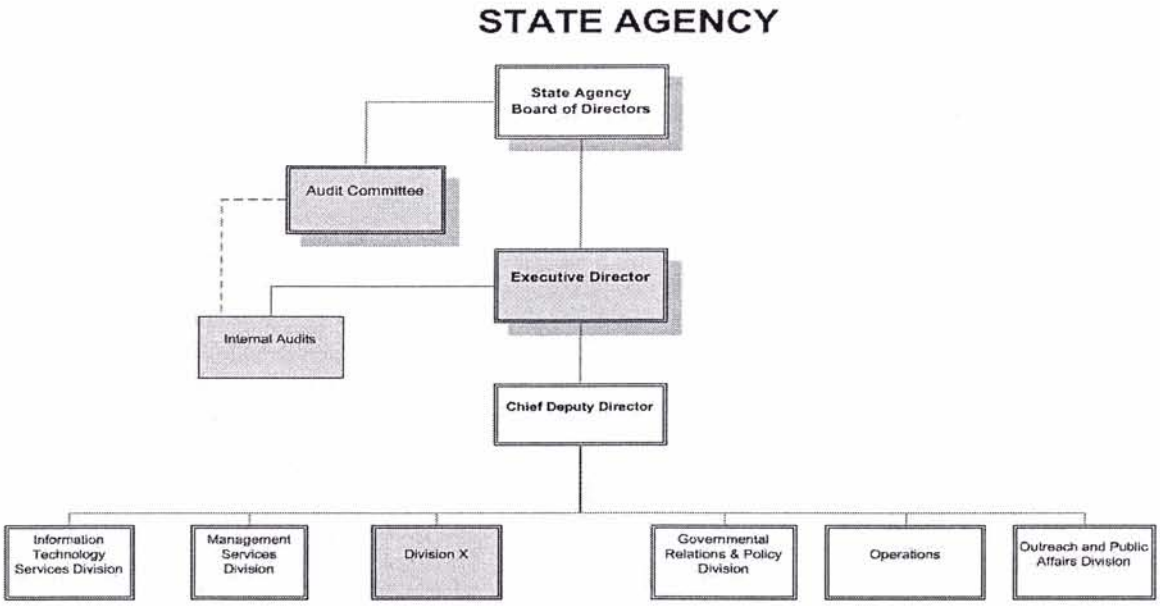
The State's Internal Audit Shop is responsible for performing audits on all the divisions including Division X which is responsible for monitoring the contract between the State Agency and Auxiliary.

While Division X is performing its routine responsibilities for monitoring the contract, staff may come across an issue/area/item that needs further review/investigation. Division X may make a recommendation to the State's Executive Management and the State's Internal Audit shop to perform an audit.

If the State's Internal Audit Shop performs an audit of the Auxiliary, would this be perceived as a conflict because the State's Internal Audit Shop is also responsible for auditing Division X? Would this violate any of the standards?

AUXILIARY AGENCY





ANSWER:

The following is a rather lengthy answer to your question. Providing the State's Internal Audit Shop has not had any direct responsibility for managing the operation of the Auxiliary or Division X, or the audit team assigned to the audit has not provided consulting services to the Auxiliary or Division X there is no conflict by auditing the operations. It appears from the organization charts that there is enough separation of duties to provide control. I see that internal audit does report to the audit committee, which gives you a sounding board if you ever believe your independence is impaired due to managements influence. Division X is just for monitoring and reporting, and internal audit should be auditing Division X operation processes as part of the normal audit cycle.

In addition, I assume you are following the Red Book Standards or Yellow Book, which allows for audit departments to perform operation functions (advisory services) if required, but the same auditor(s) should not review their own work. Therefore, a different audit team would have to be assigned for the engagement if this situation arose. If a period of time has passed since the advisory service (one or more years) there may not be a conflict since things change rapidly, but this is a call only your audit management could make.

By following the Professional Practices Framework and adhering to the code of conduct along with all the standards you are in compliance with what is acceptable.

Attribute Standard 1130

Impairments to Independence or Objectivity

If independence or ***objectivity*** is impaired in fact or appearance, the details of the ***impairment*** should be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

Implementation Standard 1130.A1 (Assurance Engagements)

Internal auditors should refrain from assessing specific operations for which they were

previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the ***previous year.***

Implementation Standard 1130.A2 (Assurance Engagements)
Assurance engagements for functions over which the chief audit executive has responsibility should be overseen by a party outside the internal audit activity.

Implementation Standard 1130.C1 (Consulting Engagements)
Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

Practice Advisory 1130.A1-1:
Assessing Operations for Which Internal Auditors Were Previously Responsible PA1130.A1-1

Implementation Standard 1130.C2 (Consulting Engagements)
If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure should be made to the engagement client prior to accepting the engagement.

Also, with the Audit Executive reporting periodically to an engaged Audit Committee with full transparency there should never be a question of independence or impairment, since the committee would have full disclosure about the work being performed and the team assigned.

Performance Standard 2060

Reporting to the Board and Senior Management
The chief audit executive should report periodically to the board and senior management on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting should also include significant risk exposures and control issues, corporate governance issues, and other matters needed or requested by the board and senior management.

CALIFORNIA STUDENT AID COMMISSION

DUTY STATEMENT

Employee Name	Classification	Working Title
Vacant	Senior Management Auditor	Chief Audit Executive
Division/Branch	**Position Number**	**Effective Date**
Audits & Compliance	270-732-4161-001	January 9, 2007

Summary of Responsibilities

The Chief Audit Executive reports functionally to the Audit Committee of the California Student Aid Commission and administratively to the Executive Director, and is the expert advisor to both regarding auditing matters and standards. The incumbent plans, guides and directs the activities of the Internal Audit Services Branch and the Program Compliance Branch; coordinates/oversees all internal and external audits of the Commission, and provides oversight of the audit program of the Commission's auxiliary corporation, EDFUND. The incumbent performs with a high degree of independence, and is responsible for minimizing risk exposure, ensuring that assets are safeguarded, and guarding against non-compliance with policies, procedures, laws and regulations. The incumbent provides high quality, independent and objective audit services to the Commission in accordance with auditing standards.

Percentage of Time	Statement of Duties
30%	Plans, guides and directs the work of the Internal Audit Services Branch. Performs regular risk assessments and completes audit plans through the examination of organizational systems such as information systems, planning systems, budget systems, and cost accounting systems; reviews operational results, examines administrative and accounting controls, and Commission/EDFUND compliance with laws, rules, policies and procedures; issues written reports after audits are completed; follows up on audits to determine that appropriate corrective action was taken; reports to the Audit Committee on audit activities at bi-monthly meetings and at special Audit Committee meetings; and provides biennial reports to the Department of Finance on the adequacy of the system of internal controls of the Commission; performs special investigations of a confidential nature; works closely with the Commission's legal counsel to ascertain legal implications of items uncovered in audits and/or investigations;
20%	Coordinates and manages the audit processes and responses to findings on audits or reviews conducted by external audit agencies, e.g. BSA, OIG, USED, OSAE; including, but not limited to, the independent audit of the Federal Fund and Student Loan Operating Fund; program reviews conducted USED or contracted auditors of guaranty agency operations; coordinates Federal Family Educational Loan (FFEL) Program audits with the EDFUND Vice President of Audit Services; reports to the Joint Commission/EDFUND Audit Committee on external FFEL Program audits.
25%	Oversees the work of the Program Compliance Branch. Develops, implements and monitors audit plans to review California schools for compliance with the policies, regulations and laws governing the Cal Grant Programs and Specialized Programs. Conducts reviews Cal SOAP Consortia for compliance with State program requirements. Reports on audit findings, and makes recommendations for program improvement and training.
15%	As Chief audit advisor to the Executive Director and the Commission, provides subject matter expertise and leadership; recommends and establishes audit policies; ensures that Commission management and staff have training, guidance and support for various audit subjects and procedures; conducts internal training sessions on a variety of subjects as they relate to auditing, as well as providing an audit perspective on various laws and rules under which the Commission and EDFUND operate; develops and maintain a library of reference materials; attends various professional classes and training conferences to keep abreast on latest audit techniques and applications.
10%	Performs all necessary administrative tasks: supervises internal audits and program compliance staffs and carries out supervisory responsibilities in accordance with State personnel requirements; develops and trains staff; prepares budget change proposals and provides budget justifications; effectively communicates in writing and orally to Commissioners, external audit agencies, State control agencies, and Commission stakeholders.

I have read and discussed these duties with my supervisor:		I certify that the above accurately represent the duties if the position:	
Employee's Signature:	**Date:**	**Supervisor's Signature:**	**Date:**

MEMORANDUM

Date: December 6, 2006

To: Dan Tokunaga
Personnel Management Analyst
Classification and Compensation Division
Department of Personnel Administration

From: **California Student Aid Commission**
Management Services Division
Glenda Smith, Manager, Personnel Services Branch

Subject: 625 Request for Senior Management Auditor

The California Student Aid Commission (Commission) is requesting approval to reclassify a vacant position in the Management Services Division to a Senior Management Auditor position to serve as the Chief of the newly formed Audit Services Division with responsibility for both internal and external audit functions. Significant changes have taken place since we last requested this upgrade in January 2005 and were subsequently denied by DPA in March of that year. The changes which warrant this upgrade can be summarized as follows:

- Heightened program visibility and sensitivity
- Broadened scope of responsibility
- Change in reporting relationship

During the years 2005 and 2006, several events occurred that underlined the need for closer oversight of Commission programs, processes, business practices and policies. In April 2006, the Bureau of State Audits (BSA) issued an audit report with 27 recommendations requiring closer monitoring of the Commission and EDFUND and questioning the benefit to the State to have the Commission continue to participate in the Federal Family Education Loan (FFEL) Program as a guarantee agency. The report recommended the Legislature closely monitor Commission and EDFUND to make sure they remain competitive with other FFEL Program guarantee agencies and monitor the Operating Fund to ensure that it is generating a sufficient operating surplus so that it can supplement funding for Commission's other services and programs. Legislative monitoring was also recommended to ensure that Commission completed all critical tasks including the renegotiation of its Voluntary Flexible Agreement with the U.S. Department of Education (USED) and the development of a business

diversification plan. Other concerns brought forward in the BSA report questioned various governance issues between the Commission and EDFUND and required the Commission to clarify roles and responsibilities and to more closely monitor several of EDFUND's business practices.

The BSA audit specifically recommended that the Commission replace the current Chief of Internal Audits (the Commission had designated EDFUND's Chief of Internal Audits to be responsible for both the EDFUND and the Commission internal audit functions) with an individual who is free from the appearance of organizational and personal impairments to independence. As a result of the BSA report, the Commission has decided to reestablish its own Chief of Audit Services. Since part of the role of the Commission's Audit Services Division is to audit EDFUND, the change would avoid any potential conflict of interest.

The Commission has incurred additional attention by the Administration and Legislature as a result of an error that was made with the enactment of Chapter 403, Statutes of 2000 (SB 1644) that added an entitlement component to the Cal Grant Programs Staff was given only 3 ½ months to develop, test and implement completely new operational policies, procedures and computer processes for the entire Cal Grant Program. During the latter part of 2005, Commission staff discovered that one of the statutory requirements for eligibility for a Cal Grant Transfer Entitlement award had not been properly incorporated into procedures or computer processes. The omission allowed ineligible students who did not meet the residency requirement at the time of graduation from high school to receive Cal Grant awards and jeopardized their participation in other programs for which they might be eligible. AB 840 was enacted to address this problem and to enable these students to remain in the Cal Grant program and required procedures where new students that do not meet all requirements will not qualify for awards in the future. AB 840 requires that participating institutions verify 10% of the transfer entitlement students for meeting the requirement that they graduated from a California high school and were a California resident at the time of graduation. The legislation also requires the Commission to audit the verification conducted at the participating institutions.

The Commission determined that a comprehensive review or risk assessment of all of the Cal Grant Transfer Entitlement Program policies, procedures and processes is necessary to ensure proper program administration. As a result, the Commission has contracted for a comprehensive review or risk assessment of the Cal Grant Transfer Entitlement Program policy and procedures, including business rules, to ensure compliance with all statutory requirements. Since many of the basic eligibility requirements and processes are the same for the other Cal Grant Entitlement Programs, the Audit Services Division will be utilizing the information in the comprehensive review in future audits of the Cal Grant Programs.

The Senior Management Auditor and the internal audit staff will be responsible for the risk assessment and audit planning, implementation and follow-up for the Cal Grant and other specialized programs administered by the Commission. The auditors will be working closely with the staff in the Program Administration and Services Division as well as staff in the Information Technology Division to ensure the Cal Grant Transfer Entitlement Program error is corrected and that the Cal Grant processes, procedures and policies conform and continue to conform to the law. A further complication to the risk assessment is that in the last two years, the Cal Grant program has been sustaining a steady loss of knowledgeable program staff that have transferred to other state agencies. The loss of knowledgeable program staff puts a further burden on the internal audit staff since the percentage and variety of errors made can be expected to increase until the new Cal Grant staff becomes knowledgeable in their jobs.

The proposed Senior Management Auditor position will report administratively to the Executive Director and functionally to the Chair of the Commission and the Chair of the Commission's Audit Committee and serves as the expert advisor on auditing standards, policy and other audit matters. The incumbent will plan, guide and direct the activities of the Internal Audit Services Branch and the Program Compliance Branch and will coordinate and oversee all internal and external audits of the Commission and will provide oversight of the EDFUND's audit program.

One of the responsibilities in the Internal Audit Services Branch will require that the Senior Management Auditor conduct a risk assessment of the Commission's internal accounting and administrative controls to develop an internal audit plan to be approved by the Commission. The risk assessment and audit plan will include grants and other programs, financial management, payroll, and technology management. The Internal Audit staff will be responsible for conducting the audits approved in the plan. Staffing in the Internal Audit Branch will consist of two Associate Management Auditors (one position is currently vacant and is being advertised) who will report directly to the Senior Management Auditor. A request for additional positions for the Internal Audit Services Branch is planned for the 2008-09 budget.

The Senior Management Auditor will oversee the Program Compliance Branch which makes regular visits to institutions participating in Commission's grant and specialized programs and Cal-SOAP to conduct administrative reviews. AB 840 requires the Commission to audit the verification conducted at the participating institutions. The Program Compliance Branch will be responsible for meeting this new requirement. Staffing in the Program Compliance Branch currently consists of one Staff Management Auditor, who will report directly to the Sr. Management Auditor, and five (5) Associate Management Auditors. Three new Associate Management Auditors and one Associate Governmental Program Analyst positions are being requested in a 2007-08 Budget Change Proposal to increase the frequency of institutional audits and audits of the CAL-SOAP consortiums

and to monitor institutions' verification of transfer entitlement and GPA verification processes.

The Senior Management Auditor will coordinate and manage the audit processes and responses to findings on audits or reviews conducted by external audit agencies, including BSA, Office of Inspector Genera (OIG), US Department of Education (USED), Department of Finance Office of State Audits and Evaluation (OSAE) and the auditor contracted to conduct the annual independent audit of the Federal Fund and Student Loan Operating Fund. The incumbent will coordinate these external audits with the EDFUND Vice President of Audit Services. The incumbent will also conduct specific audits on EDFUND as recommended by the Federal Policy and Programs Division as part of that division's oversight function of the loan program and EDFUND.

The Senior Management Auditor is responsible for minimizing risk exposure, ensuring that assets are safeguarded and guarding against non-compliance with policies, procedures, laws and regulations. The incumbent will report to the Commission's Audit Committee on audit activities at bi-monthly meetings and at special Audit Committee meetings and provide biennial reports to the Department of Finance on the adequacy of internal controls of the Commission. The incumbent will work closely with the Commission's legal counsel and perform special, highly confidential investigations if needed.

The Student Aid Commission considers the approval of the Sr. Management Auditor position to be critical to the Commission's ability to carry out its vision and mission. The Commission needs a seasoned and knowledgeable auditor who has the authority and ability to respond to the very sensitive and complex issues discussed above assist the Commissioners and staff in repairing our damaged reputation and prevent future mistakes by providing expert leadership and guidance. Should you require further information, please contact me on 526-8046.

CALIFORNIA STUDENT AID COMMISSION

JOB OPPORTUNITY

270-732-4161-001 **Release Date: 01/09/07**

The California Student Aid Commission is the State's major policy formulating agency for student financial aid and one of the largest agencies of its kind in the country. The Commission is responsible for administering a comprehensive program of student loans, grants, college savings plans, and other special programs for eligible students. Today, the Commission is moving ahead to provide innovative financial aid leadership for California's postsecondary students attending California's unrivaled system of public and private colleges, universities and private career colleges.

Classification: **Senior Management Auditor/Pos. #270-732-4161-001**
Permanent, Full-Time
Audits and Compliance Division

Who May Apply: Individuals with permanent, full-time status, employed by the State of California as a Senior Management Auditor, or in a comparable classification, or those with transfer or list eligibility to the advertised classification. SROA/surplus employees at this level are encouraged to apply. Applications will be screened and only the most qualified will be selected for interview.

Duties: The Chief Audit Executive reports functionally to the Audit Committee of the California Student Aid Commission and administratively to the Executive Director and is the expert advisor to both regarding auditing matters and standards. The incumbent plans, guides and directs the activities of the Internal Audit Services Branch and the Program Compliance Branch; coordinates/oversees all internal and external audits of the Commission and provides oversight of the audit program of the Commission's auxiliary corporation, EdFund. The incumbent performs with a high degree of independence and is responsible for minimizing risk exposure, ensuring that assets are safeguarded, and guarding against non-compliance with policies, procedures, laws and regulations. The incumbent provides high quality, independent and objective services to the Commission in accordance with auditing standards.

Salary: $5663 - 6831

Desirable Skills: Knowledge of general accounting and auditing principles, risk management concepts and SAM 20000 process; must possess excellent oral presentation and writing skills; Must have demonstrated experience managing a diverse staff; Must possess the abilities to mentor and to listen and work interactively with others; must possess and display good judgment and discretion; must be a self-starter who accepts new challenges and is able to work under pressure and able to motivate staff; possess a Certified Internal Auditor, Certified Public Accountant, Certified Government Auditing Professional or Certified Information Systems Auditor designation.

How to Apply: Please submit an application/resume with **Pos.# 270-732-4161-001on the app**. to:
California Student Aid Commission
Personnel Services Branch
ATTN: Sheila Roberts
P.O. Box 3210
Rancho Cordova, CA 95741-3210

Final Filing Date: Until filled.
Facilities: Close to freeway access at Zinfandel Drive and Hwy 50
Free Parking

AN EQUAL OPPORTUNITY EMPLOYER PROVIDING OPPORTUNITIES TO ALL REGARDLESS OF RACE, COLOR, CREED, NATIONAL ORIGIN, ANCESTRY, SEX, MARITAL STATUS, DISABILITY, RELIGIOUS OR POLITICAL AFFILIATION, AGE OR SEXUAL ORIENTATION.

IT IS AN OBJECTIVE OF THE STATE OF CALIFORNIA TO ACHIEVE A DRUG FREE WORK PLACE. ANY APPLICATANT FOR STATE EMPLOYMENT WILL BE EXPECTED TO BEHAVE IN ACCORDANCE WITH THIS OBJECTIVE BECAUSE THE USE OF ILLEGAL DRUGS IS INCONSISTENT WITH THE LAW OF THE STATE, THE RULES GOVERNING CIVIL SERVICE, AND THE SPECIAL TRUST PLACED IN PUBLIC SERVANTS.

SPECIFICATIONS: MANAGEMENT AUDITOR SERIES
CALIFORNIA STATE PERSONNEL BOARD

SPECIFICATION

MANAGEMENT AUDITOR
Series Specification
(Established August 6, 1969)

SCOPE

This series specification describes auditor classes typically used to administer, supervise, or conduct technical audits of the fiscal and management procedures and practices of State agencies and other entities subject to audit by the Department of Finance or the internal audit staff of a State agency.

Schem Code	Class Code	Class
LE30	5841	Staff Services Management Auditor
LE26	4159	Associate Management Auditor
LE24	4160	Staff Management Auditor
LE22	4161	Senior Management Auditor
LE20	4163	Supervising Management Auditor

DEFINITION OF SERIES

Positions in this series examine organization operations and internal and management controls, review organization policies and procedures, appraise performance and accomplishments in the execution of agency plans and objectives, and evaluate the effectiveness of operations in terms of the resources available to the agencies audited. Management Auditors are also involved with audit programs in which the auditor may review accounts, records and reports, verify reconciliations of accounts, and determine that the financial statements accurately reflect financial status and transactions. Where the scope of examinations performed is primarily fiscal in nature and does not include a strong emphasis on management, performance, or operational auditing, positions are more appropriately allocated to the State Financial Examiner series.

ENTRY LEVELS

Entry into the Management Auditor series is typically gained through the class of Staff Services Management Auditor.

FACTORS AFFECTING POSITION ALLOCATION

Variety and complexity of audit assignments, scope and complexity of audit objectives and programs, independence of action and level of decision-making authority, level and variety of professional contacts, degree of administrative and supervisory

responsibilities, supervision received, responsibility for program and policy implementation, and impact of the audit program on the plans, procedures, and policies of the organizations audited.

DEFINITION OF LEVELS

STAFF SERVICES MANAGEMENT AUDITOR

This is a recruiting, training, and development class for persons qualified to learn, under close supervision, management auditing methods.

ASSOCIATE MANAGEMENT AUDITOR

This is the first full journeyperson level requiring independence and proficiency in handling complex and difficult assignments. Typically, an Associate is assisted by one or more Staff Services Management Auditors in the performance of complex management audits in a single agency or a small group of related agencies.

STAFF MANAGEMENT AUDITOR

Either (1) supervises and works with a group of audit teams performing the less complex management audits of State departments or large governmental programs; or (2) directs the work of a small internal audit staff in a department where the scope of the program includes significant emphasis on management, operational, or performance auditing.

SENIOR MANAGEMENT AUDITOR

Either (1) is responsible for planning, organizing, and directing the work of a group of audit teams performing management audits of several organizations or may supervise a large audit team conducting a sensitive complex audit; or (2) directs an internal audit program of a State department requiring a variety of complex technical management audits.

SUPERVISING MANAGEMENT AUDITOR

Either (1) is responsible for long-range planning, directing, and coordinating the total audit activities of several State agencies or large State organizations; or (2) directs and is responsible for the total management audit activities of an internal audit program in a State department requiring management audits of several large internal governmental programs, or agencies under contract.

MINIMUM QUALIFICATIONS

STAFF SERVICES MANAGEMENT AUDITOR, RANGES A, B, AND C

Education Requirements: The following describes the education which is acceptable for one or more of the classes in this series. Equivalent to graduation from college preferably with a major in accounting, business administration, public administration, or economics and with a minimum of six semester units of accounting. Registration as a senior in a recognized institution will admit applicants to examinations for Staff Services

Management Auditor but they must produce evidence of graduation or its equivalent before they can be considered eligible for appointment.

Experience Requirements: No experience required. Applicants must meet the education requirements.

ASSOCIATE MANAGEMENT AUDITOR

Either I

One year of experience in the California state service performing professional auditing or accounting duties of a class with a level of responsibility not less than that of Staff Services Management Auditor (Range C) or Governmental Auditor II.

(Applicants who have completed six months of service performing the duties as specified above will be admitted to the examination, but must have satisfactorily completed the one year of this experience before they can be eligible for appointment.)

Or II

Three years of increasingly responsible professional auditing and accounting experience or management consultant experience which shall have involved preparation of reports and presentations of recommendations to management. For at least one year, these responsibilities must have included duties at a level equivalent to that of Staff Services Management Auditor (Range C) in State service. One year of graduate work in accounting, business administration, public administration, or a related field may be substituted for the six months' experience. and

The education pattern listed under Education Requirements.

STAFF MANAGEMENT AUDITOR

Either I

One year of experience in the California state service performing professional auditing or accounting duties of a class with a level of responsibility not less than that of Associate Management Auditor.

Or II

Four years of increasingly responsible professional auditing and accounting experience or management consultant experience, which shall have involved preparation of reports and presentations of recommendations to management. For at least one year, these responsibilities must have included duties at a level equivalent to that of an Associate Management Auditor in State service. and

The education pattern listed under Education Requirements.

SENIOR MANAGEMENT AUDITOR

Either I

One year of experience in the California state service performing professional auditing or accounting duties of a class with a level of responsibility not less than that of Staff

Management Auditor or two years of professional auditing and accounting duties in a class with a level of responsibility not less than that of Associate Management Auditor.

Or II

Five years of increasingly responsible auditing and accounting experience or management consultant experience which shall have involved preparation of reports and presentations of recommendations to management. For at least one year, these responsibilities must include duties at a level equivalent to that of an Associate Management Auditor in State service. and

The education pattern listed under Education Requirements.

SUPERVISING MANAGEMENT AUDITOR

Either I

One year of experience in the California state service performing professional auditing or accounting duties in a class with a level of responsibility not less than that of a Senior Management Auditor; or two years of experience in the California state service performing professional auditing or accounting duties in a class with a level of responsibility not less than that of Staff Management Auditor.

Or II

Five years of experience in a professional accounting, auditing, or examining position, at least two years of which shall have involved the direction of a large and complex independent and comprehensive post audit program (the term "comprehensive" implies examination of the entire fiscal operations rather than a specialized or limited segment), or four years of experience in a management consultant position, at least two years of which shall have involved the direction of a large management consultant program. (Experience in the California state service applied toward this requirement must include at least two years performing the duties of a class at a level of responsibility not less than that of Staff Management Auditor.) and

The education pattern listed under Education Requirements.

KNOWLEDGE AND ABILITIES

STAFF SERVICES MANAGEMENT AUDITOR

Knowledge of: Principles and practices of organizational management, accounting, and auditing.

Ability to: Learn and apply general and specialized accounting and management auditing principles and procedures as used in State Government.

ASSOCIATE MANAGEMENT AUDITOR

Knowledge of: Elementary statistics; organization and management in the public and private sector, current trends, and problems in governmental management; principles of electronic data processing, the uniform accounting system, and the financial organization and procedures of the State of California, policies, rules, and regulations of the Legislature, State Controller, State Treasurer, Department of Finance, and central control agencies as they relate to State agency financial and program management activities.

Ability to: Conduct financial and management duties of a variety of State agencies, governmental jurisdictions, and other entities; make investigations of accounting and financial organization procedures and problems; communicate effectively; and analyze data and take effective action.

STAFF MANAGEMENT AUDITOR

Knowledge of: All of the above, and principles and techniques of personnel management and supervision; methods of auditing through electronic data processing systems; applications of probability sampling to auditing; program budgeting.

Ability to: Plan, organize, and direct the work of a small group of auditors engaged in management audits, assume responsibility for complex audit studies. ("Understanding of, and effectiveness in, carrying out State and departmental equal employment opportunity and affirmative action policies.")

SENIOR MANAGEMENT AUDITOR
SUPERVISING MANAGEMENT AUDITOR

Knowledge of: All of the above, and organization and management of a broad range of State agencies; group leadership techniques; program planning and evaluation; Department's Affirmative Action Program objectives; a manager's role in the Affirmative Action Program and the processes available to meet affirmative action objectives.

Ability to: All of the above, and plan, organize, and direct the work of a staff engaged in a variety of complex, technical, management audits; work effectively with top level managers of State agencies and other organizations. ("Understanding of and effectiveness in carrying out State and departmental equal employment opportunity and affirmative action policies.")

SPECIAL PERSONAL CHARACTERISTICS

ALL LEVELS:

Ability to qualify for a fidelity bond and willingness to travel and work away from the headquarters office.

CLASS HISTORY

Class	Date Established	Date Revised	Title Changed
Staff Services Management Auditor	12/15/77	--	--
Associate Management Auditor	08/06/69	09/06/78	--
Staff Management Auditor	08/06/69	09/06/78	--
Senior Management Auditor	08/06/69	09/06/78	--
Supervising Management Auditor	10/01/75	09/06/78	--